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Governor



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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 25, 2004 8:45 a.m.

Via Fax: 402-231-1403

Mr. David Sokol
Chairman and Chief Executive
MidAmerican Energy Holdings Company
302 South 36th Street, Suite 400
Omaha, Nebraska 68131-3945

Dear Mr. Sokol:

Thank you for taking the time and extending the effort to attend our pipeline development meeting in Anchorage on March 22, 2004. All of us benefited from the frank exchange of information that took place during that meeting.

I also appreciate your participation in the pipeline company meeting that followed our discussions with the gas producers. All three parties brought up a number of very difficult and critical issues that need to be resolved before the Alaska gas pipeline project can move forward. I came away from that exchange with a clear understanding of your position, the issues that remain open for you and the possible advantages presented by the close coordination of TransCanada and MidAmerican in the commercial development of a pipeline project. While we were not able to establish terms to achieve the exclusive security of tenure you required at that meeting, I expect that our discussion provided you with a better appreciation of the challenges your proposal would create for the State, including clearing the legislative process.

We had hoped that our proposal to grant you sole rights to a state pipeline right-of-way for five years in connection with the commitment of the State to support, and take no action to inhibit, your eventual construction, ownership and operation of the Alaska portion of the gas pipeline would provide you with the security you needed to proceed with development efforts. However, you rejected our proposal apparently because it did not provide you with the level of security you desired. We left that meeting with the hope and challenge that we might find a way forward that advanced the interests of the State, TransCanada and MidAmerican in a future gas pipeline project.

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Let me first be absolutely clear that we wish to continue working with you and to do everything prudently possible to support your business interest in developing the pipeline project. We very much appreciate the AGTC partnership you have formed with Alaska corporate interests to proceed expeditiously with the development phase of the gas pipeline project and we value your willingness to address State interests in local employment and in-state gas accessibility.

We also believe that it is in the best interest of the State for the pipeline to be owned and operated by an unaffiliated pipeline company, assuming that such a company is able to provide the lowest possible tariff. The State has not yet been able to assess whether or not MidAmerican (AGTC) could produce a tariff that protects the State's interests in the value of its gas and in project commercialization because you have not yet provided the cost and other information requested by the state on the downstream project. Once the state has such information it could estimate the tariff using the methodology and principles previously discussed with you and set forth in Annex L-2, to be included in our Stranded Gas Contract.

Accordingly, we would prefer to utilize the process for further analysis to which MidAmerican, TransCanada, the gas producers, and the State agreed at the March 22nd meeting. At that meeting, I understood MidAmerican and TransCanada to agree to complete a joint commercialization proposal and present it to the producers by the end of May. This proposal would assume that Alaska would decide later this year after completion of its due diligence to accept the risk of some conditional shipping capacity. The gas producers agreed to analyze and respond to this proposal within four weeks of receiving it.

The producers would determine whether the shipping risks which MidAmerican, TransCanada and the State might take would lead to the point at which commercialization of the project reaches a "definitive stage," as that term is used in TransCanada's letter to you of March 19, 2004 as a condition of the transfer by TransCanada of its exclusive Alaskan pipeline assets to MidAmerican. After TransCanada transfers its exclusive Alaska pipeline rights to MidAmerican, a joint commercialization agreement among the State, TransCanada and MidAmerican has been executed (reflecting the risks and role the State might be prepared to assume) and the Stranded Gas Contract has been executed with MidAmerican, the State would be in a position to propose to the Legislature that it grant its right-of-way to MidAmerican (AGTC) and designate MidAmerican (AGTC) as its sole development partner under such terms and conditions as mutually agreed.

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Such a process would allow the State to systematically work through the necessary issues to assure that any agreement would be in the best interest of the State. Such a process could be completed without MidAmerican first having to spend significant development dollars.

Concurrent with the development of a joint commercialization proposal by TransCanada and MidAmerican, the state will continue to work expeditiously with you to complete a Stranded Gas Act contract. We are prepared to agree to include a most favored nation clause in this contract to assure you that no other stranded gas application will be processed with more favorable economic terms. This harmonizes our obligation to process other Stranded Gas Act applications in good faith with your need to protect your investment in development work against the possibility that the State might provide more favorable terms to a competing project in the future.

Please keep in mind that any contract completed under the Stranded Gas Act authority must be submitted to the Legislature for approval. It is therefore critically important that we be able to demonstrate to the Legislature and public that the contract is in the best interests of the State and that it provides for an economic pipeline project with the lowest possible tariff.

Again, I want to thank you for your significant efforts to date working with the State of Alaska and Alaskans on this important project, and particularly for the effort you made to participate in our March 22nd meeting. We look forward to working with you as we collectively follow through on the next steps discussed and agreed to at that meeting.

Sincerely Yours,

Frank H. Murkowski
Governor

cc: Mr. Carl Marrs, CIRI
Mr. Ken Thompson, Pacific Star Energy